

An aerial, grayscale photograph of Qualcomm Stadium, showing the large oval structure with tiered seating and the surrounding area including parking lots and other buildings.

Office of the City Auditor Audit Report Presentation

Qualcomm Stadium Audit

Report issued May 8, 2009

June 1, 2009

Audit Committee Meeting

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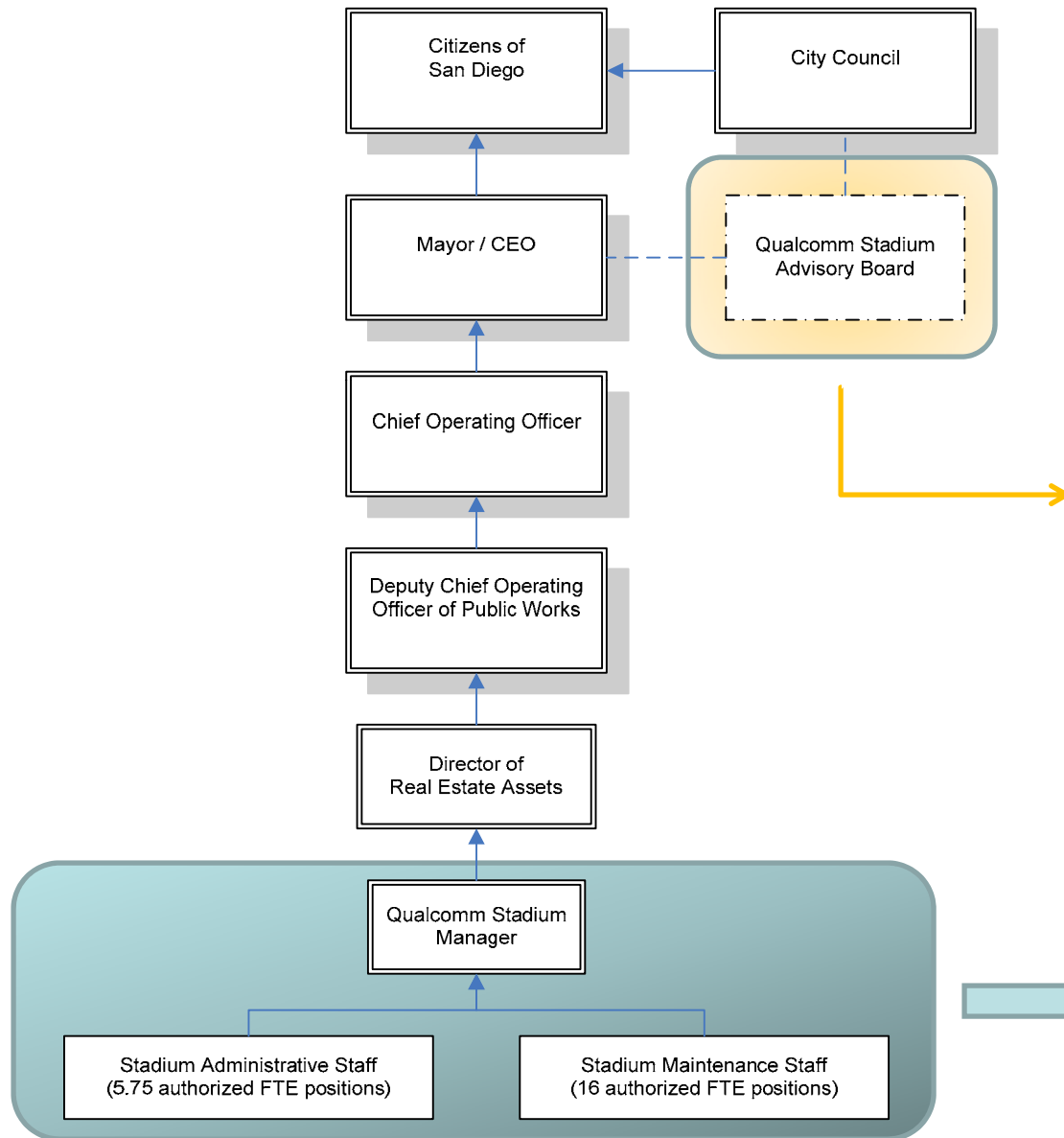
Audit Objectives

- Evaluate the Stadium's effectiveness in generating revenue for the City
- Analyze revenue reporting practices related to Stadium operations
- Identify major risks associated with Stadium Ownership

Qualcomm Stadium Background

- Originally built in 1967
- Owned and operated by the City of San Diego
- 167 acre Stadium property
 - Located in Mission Valley (Council District 6)
 - 120 acres of parking lots & adjacent practice field
- Several Stadium renovations have increased capacity to over 70,000 (most recently in 1997)

Qualcomm Stadium Organizational Chart



Qualcomm Stadium Advisory Board Roles & Responsibilities

- Conduct public meetings to provide a forum on Qualcomm Stadium operations and receive public input on Stadium issues
- Serve as liaison between the public, Stadium tenants, contractors, and the City
- Provide recommendations to the Mayor and City Council on any action that requires City Council approval
- Not have any financial or budgetary authority

Total Stadium Staff
22.75 FTE

Stadium Revenue Sources

- Long Term Stadium Agreements
- Major Stadium Tenants
- Single event Stadium use agreements
- Parking lot events
- Non-Revenue Producing Stadium Events

Summary of Audit Findings

- Stadium Operations Are Not Self-Sustaining
 - The Stadium requires a subsidy of over \$10.8 million annually to sustain its operations
 - Current and Past Subsidy:
 - Transient Occupancy Tax
 - Past Subsidy:
 - Auxiliary Property Leases (Sports Arena/Midway Frontier)

Summary of Audit Findings (cont.)

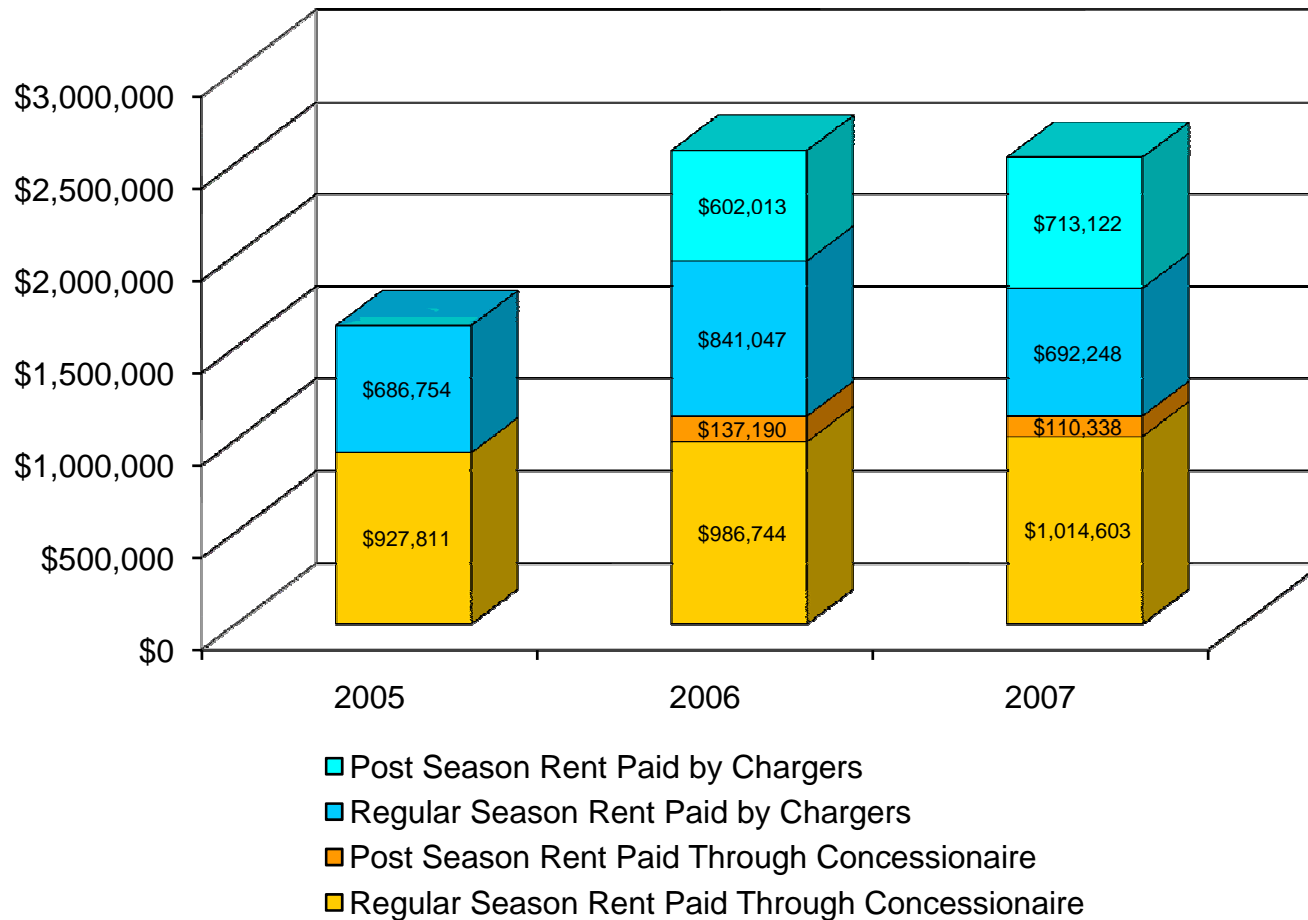
- Complex Agreements and Legal Settlements Have Significantly Restricted the Revenue Generating Performance of Qualcomm Stadium
 - Significant amounts of Stadium revenue are paid back to the Chargers or are offset by agreed-upon rent credits

Summary of Audit Findings (cont.)

- Legal settlement with the Chargers
 - Stemmed from Stadium's ADA compliance issues
 - The City was found liable for lost ticket and concession revenue for Chargers games
 - The City has actually paid the Chargers a net amount of \$492,000 for the 2005 through 2007 football seasons
 - The City is obligated to pay the Chargers throughout duration of the current agreement (2020 Season)

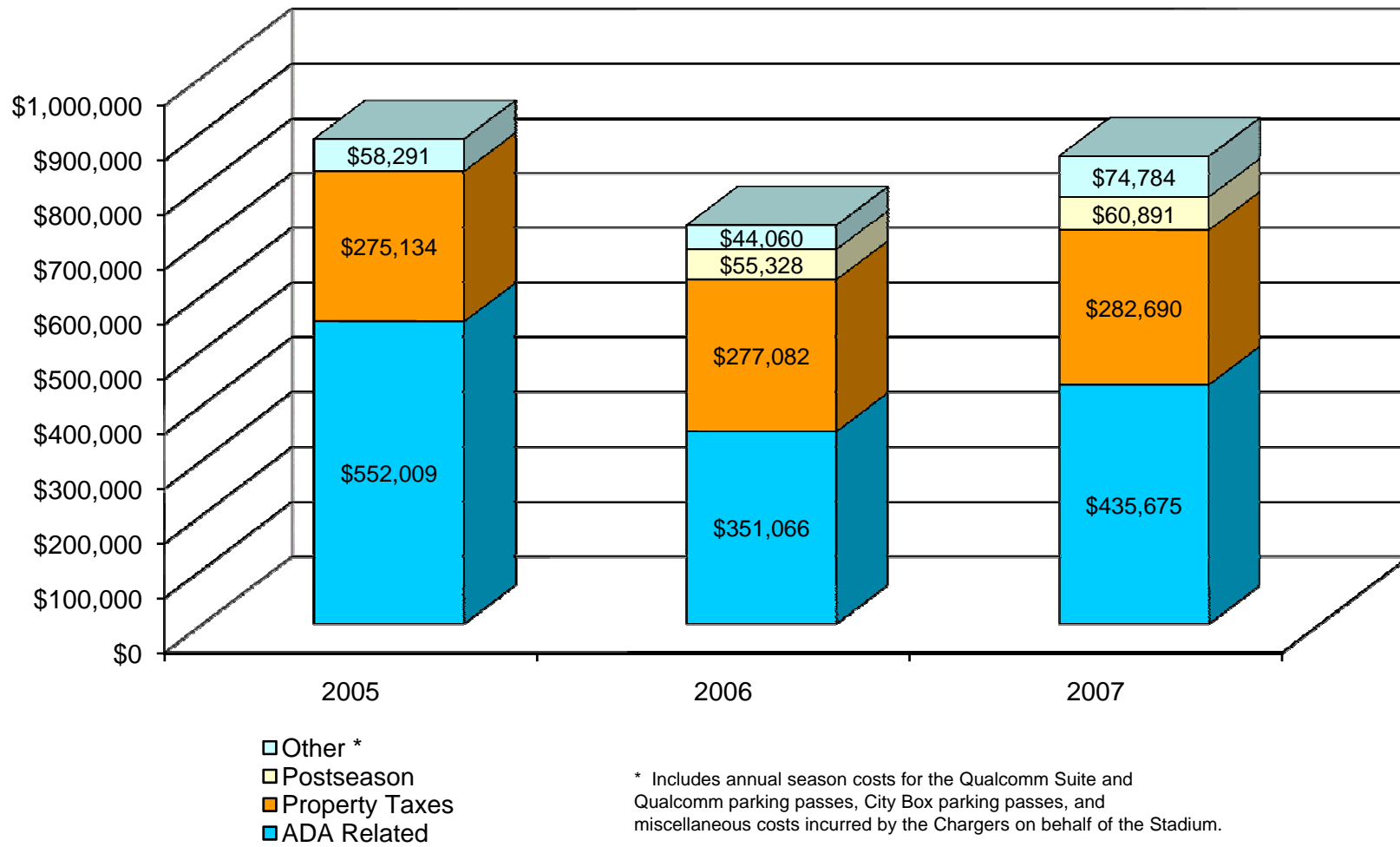
Chargers Revenue Summary

Rents Paid to City From Chargers Games by Season



Chargers Rent Credits

Summary of Rent Credits Claimed by Chargers by Season



Summary of Findings (cont.)

- Early termination of the Chargers' Agreement Could Leave the City with a \$21.4 Million Debt Obligation

Date	Stadium Renovation Bonds Principal Balance (Est.)	Chargers Termination Fee	City Obligation Less Termination Fee*	Debt Service Reserve Account Balance **
2/1/2008	\$57,775,000	n/a	n/a	\$5,773,315
2/1/2009	\$56,275,000	\$56,275,000	\$0	\$5,773,315
2/1/2010	\$54,670,000	\$54,670,000	\$0	\$5,773,315
2/1/2011	\$52,950,000	\$25,820,000	\$27,130,000	\$5,773,315
2/1/2012	\$51,110,000	\$23,980,000	\$27,130,000	\$5,773,315
2/1/2013	\$49,145,000	\$22,015,000	\$27,130,000	\$5,773,315
2/1/2014	\$47,030,000	\$19,900,000	\$27,130,000	\$5,773,315
2/1/2015	\$44,760,000	\$17,630,000	\$27,130,000	\$5,773,315
2/1/2016	\$42,325,000	\$15,195,000	\$27,130,000	\$5,773,315
2/1/2017	\$39,705,000	\$12,575,000	\$27,130,000	\$5,773,315
2/1/2018	\$36,890,000	\$9,760,000	\$27,130,000	\$5,773,315
2/1/2019	\$33,870,000	\$6,740,000	\$27,130,000	\$5,773,315
2/1/2020	\$30,620,000	\$3,490,000	\$27,130,000	\$5,773,315

* Estimate assumes that the entire Chargers Termination Fee payment will be used to pay down the balance of the Stadium Renovation Bond principal. Amount does not consider the disposition of the Stadium Renovation Bond Debt Reserve Account which has a balance of \$5.8 million as of January 2009.

** Reserve balance must be the lesser of 10% of the bonded principal, the maximum annual debt service for current or any future year, or 125% of average annual debt service. Per Debt Management, the maximum annual debt service for the current or any future bond year is used.

Summary of Findings (cont.)

- The City Has No Formalized Business Plan for Qualcomm Stadium
 - Industry trends
 - Niche marketplace
 - Regional competition (including Petco Park)
 - Uncertainty of Chargers tenancy
- Stadium Oversight Could Be Enhanced
 - Improved operational reporting
 - Transparency of operational strategy

Summary of Findings (cont.)

- Certain Agreements Have Not Produced a Sustainable Financial Benefit to the Stadium
 - Ex: SDSU Aztec Football
- Unique Personnel and Administrative Challenges
 - Administrative staff turnover
 - Lack of specific policies and procedures for stadium operations
 - Improperly maintained & incomplete Stadium event files

Recommendations

- We made a total of 9 audit recommendations
- Management agreed with 8 recommendations and partially agreed with one recommendation

Recommendations (cont.)

- Management only partially agreed with the following recommendation:
 - To improve the oversight of Stadium operations, the administration should take steps to ensure that the Stadium Advisory Board (SAB) is actively involved with making recommendations to the Mayor and City Council for all major Stadium policy decisions including long-term contract terms, capital expenditures, and long-term marketing strategy. Per the advisory capacity granted to the SAB through the Municipal Code, SAB recommendations should be formally communicated to the Mayor and City Council prior to any significant action related to Stadium policy has been taken.
- Management's response indicated that they did not agree with the portion of our recommendation highlighted above



Questions